

OUTSOURCING IN THE LAW

– YES REALLY!

(Oct 05)

This is not a repeat of the message set out in an article above (Employment Law Perspectives) where firms are encouraged to seek our assistance with setting up outsourced services for their clients but to consider whether law firms can benefit from outsourcing their own core administrative tasks.

I have written previously of enterprising Indian law firms that have opened branches in London as a way of channelling 'back office' and fee earning work to their head offices but the following is a different concept and may provide an opportunity for Australian and New Zealand commercial practices.

We are all familiar with and accept that back office support services for our household and office utilities, airline bookings, credit card usage, insurance claims, internet shopping and daily banking needs are dealt with in Delhi, Mumbai, Madras and Bangalore. The result is that call centre staff there have access (in strictly controlled circumstances) to our private financial dealings. Why then has the legal profession shown an apparent reluctance to learn whether outsourcing presents a threat or an opportunity, especially in the areas of document management, time recording, billing, disbursements and even practice management resources? (There is no practical impediment to a practice management software supplier moving from the present paradigm of selling an operating licence to the user to run on-site when it is technically simple for the site to be remote and centralised running multiple firms' requirements on one set of servers.) Whether the administration is on the next floor or another continent is largely irrelevant – it is the supply of timely and accurate information that is paramount.

I am not aware of any calculations undertaken in Australasia on operating costs for the legal profession but it is different in the US. In 2004 Dow Jones Publications reported: "Industry data show that the top 200 U.S. law firms spend close to US\$20 billion annually on operating costs, with office operations and documentation management making up 46% of total expenses." The clear implication is over US\$9 Billion is spent each year on administration by 200 firms. Shifting some of this workload to India is achievable and if the experience of banks, airlines and insurance companies is any guide would bring about substantial cost savings (read increased profits). In case any reader thinks the legal services industry is too conservative to consider this or that quality control would be an issue or worse, that 'clients wouldn't approve', it is already happening. Old established City of London firm Allen and Overy (Founded Jan 1930, Turnover £666 Million, profit margin 33%, 2263 lawyers and 434 partners) are already doing it, having signed a contract last year. Whilst the exact scope of the deal has not been published the work goes to Madras in Southern India and is managed by a specialist consulting firm who talk about savings of up to 60% a year in their literature. Large firms who are under pressure from clients to control costs, should look at this as a matter of urgency. Increasing charge-out rates as a response to higher costs is no longer acceptable and clients are getting wise to it.

If profit is really so hard to achieve it is surprising that local firms have not explored this further. LegalBestPractice can assist your firm to identify functions which can be outsourced, can assist with project planning, introductions to existing outsourcing service providers and all aspects of cost control. Business Process Outsourcing (BPO) is a proven way of controlling costs and it is in our view inevitable clients are going to look to firms to use this as a way of controlling fee uplift as the marketplace for legal service becomes more competitive. Using the annual 'ratchet' for fees at budget time sends all the wrong messages.